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SIPDIS

SENSITIVE

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STATE FOR NEA/ELA
TREASURY FOR MNUGENT AND SBLEIWEISS
OPIC FOR RMOSBACHER/JSIMON/RDRUMHELLER/CHOSTETTLER
EEB FOR EDIBBLE/RDEMARCELLUS
NSC FOR ABRAMS/SINGH/YERGER/DEMOPOLOUS

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SUBJECT: LEBANON: BANKERS VALUE U.S. ASSISTANCE TO LEBANON

SUMMARY:

¶1. (SBU) Senior officials from a cross-section of Lebanese banks told Charge that USG financial assistance, especially where it shows confidence in the banking system, is critical. OPIC loans, managed by Citibank, of \$108 in early 2007 and \$153 in 2008, are popular with the banks and the borrowers. In the same way the \$1 billion deposit promised by Saudi Arabia is necessary to boost confidence in the Lebanese financial situation and reduce the cost to the GOL of new borrowing. Bankers also pointed out that USAID micro financing offers a cheaper alternative to Hizballah-backed loans, and should be continued. Lebanese banks, undervalued and with limited opportunities in Lebanon, are rapidly expanding outside of Lebanon, and Syria is proving to be an attractive and profitable market. End summary.

LEBANESE BANKS STEADILY
INCREASE IN VALUE

¶2. (SBU) Charge, Econoff, and Econstaff met on April 29 with senior officials from the Lebanese Banking Control Commission (BCC), and a cross-section of important Lebanese banks. Bank Audi, Byblos Bank, BLOM Bank, Fransabank, Lebanese Canadian Bank, and Intercontinental Bank were all represented. Lebanese banks are proud of being the only banks in the region left unscathed by the global sub-prime crisis, due to an early Central Bank of Lebanon (CBL) circular banning investments in sub-prime instruments. These banks have high liquidity and a low cost of deposits. This allows them to offer interest rates now above LIBOR, and that, plus the continuing confidence by investors, means that deposits are growing steadily. With only small dips following the Hariri assassination in early 2005 and the July 2006 war, deposits have grown from \$43 billion in early 2003 to \$69 billion by the end of April 2008. Since the beginning of what Bank Audi refers to as "domestic political bickering" in early 2007, deposits have increased by \$9 billion.

OPIC LOANS POPULAR, AND
CHEAPER THAN "HIZBO-BANK"

¶3. (SBU) According to the luncheon participants, Lebanese banking is successful due to investor confidence, and outside enhancements, such as U.S. OPIC funds and the deposits of Saudi Arabia and Kuwait in the CBL during the July 2006 war, boost that confidence. The OPIC loans, \$108 in 2007 and \$153 in 2008, are not large or even

critical; Lebanese banks are experiencing very high liquidity. However, they are a concrete measure of investor confidence, as well as being a popular instrument with banks and borrowers alike. Like the USAID-funded micro credit, these loans to small and medium-size enterprises (SME) can offer a cheaper alternative to what the bankers referred to as "Hizbo-bank," or Hizballah.

SAUDI DEPOSIT CRITICAL
FOR CONFIDENCE

14. (SBU) In 2008 the GOL will need \$3 billion in foreign currency financing. Lebanese banks will provide about 90 percent of that through Euro-bond issues, but the quality of the credit package they can provide will be superior if the elusive \$1 billion deposit promised by the Saudis earlier this year is implemented. None of the bankers know why the Saudis have not acted on their promise to PM Siniora, nor are there even rumors of the cause. However, all believe that the deposit, which will be an interest-bearing deposit in the CBL, will both cut borrowing costs and enhance investor confidence significantly. BCC Chairman Walid Alameddine bluntly asked Charge to do what she could to convince the Saudis to make good on their promise, and quickly.

SYRIA IS AN ATTRACTIVE
MARKET FOR BANKS

15. (SBU) Lebanese banks, which "suffer" from too much liquidity and few investment opportunities within Lebanon, are expanding rapidly outside of the country. One fertile territory is Syria, open now to private banking. They pointed out that the Syrian diaspora is twice as wealthy as the Lebanese diaspora, and the latter provides most of the foreign investment in Lebanon and 25 percent of the GDP. It is

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the bankers' opinion that the Syrians, anxious to replace dwindling income from oil and agriculture, are looking for and finding foreign direct investments (FDI.) This is an opportunity cost to Lebanon, and in 2007 that loss amounted to \$3-4 billion FDI. Bankers point out that the GOS follows the "Chinese model" whereby the government does not interfere in banking.

BANKS UNDERVALUED,
COULD EXPLODE IN VALUE

16. (SBU) Bankers point out that Lebanese banks, valued at only 1.5 times book, are undervalued, and handicapped by the political situation. Stability would allow for an explosion, to more than twice the \$7.5 billion in book value. Even a slight improvement in outlook, such as this week's announcement of a visit by Arab League SYG Amr Moussa, can cause an increase in the value of bank GDRs. In fact, according to the bankers, Moussa has a bigger impact on bank share value than on solving the political crisis.

COMMENT

17. (SBU) It is generally understood that the Lebanese banks carry the Lebanese economy; if bankers at this level believe that the promised Saudi deposit is critical, no effort should be spared in making it a reality. End comment.

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